COUNTY OF ERIE

STEFAN I. MYCHAJLIW
COMPTROLLER

May 9, 2014

The Honorable
Erie County Legislature
93 Franklin Street
Buffalo, New York 14202

Re: 2013 Year-End Financials

Dear Honorable Legislators:

The Office of the Comptroller is pleased to inform you that after working in tandem with the Division of Budget & Management and all County departments the 2013 County fiscal year is closed. Draft financials have been prepared and will be turned over to the County's independent outside audit firm of Drescher & Malecki LLP. They will begin their work auditing the results. It is anticipated that they will complete their audit and final 2013 financial statements will be released by the end of June, 2014.

As you may recall, the 2013 budget was passed using approximately $14 million in surplus funds to balance it. Unaudited actuals indicate that was not necessary. Without those additional funds to balance the budget, the year ended with an operational surplus of $653,071. This represents a budget surplus of $15,326,191.

Last year, the Legislature amended the budget to eliminate a proposed property tax increase. Had your honorable body not reduced the 2013 budget by $8,514,124, the budget surplus would have been $23,840,315. Had sales tax revenue come in at budget, the surplus would have been $29,792,788. The year ended with sales tax revenue $5,952,473 below budget.

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In a letter dated March 3, 2014 to your Honorable Body, The County Executive indicated a desire to utilize a significant portion of the 2013 surplus on various expenditures, including:

- $7,000,000 to pay a portion of the 2014 pension obligation
- $2,000,000 additional road funding
- $225,000 for Risk Retention
- $175,000 for In Rem Foreclosures
- $100,000 to acquire land adjacent to Seneca Bluff Park

Should your Honorable Body agree to the administration's requests, the grand total of assigned fund balance to be utilized in 2014 is $18,022,807. Unassigned fund balance would then increase by $1,144,331 to a total of $89,476,811.

Total fund balance increased by $653,471 to $120,794,959. It is important to note that these spending requests are in addition to the $7,405,000 your honorable body already approved to balance the adopted 2014 budget.

Article 25 of the Erie County Charter, Section 2505b states:

"*The county shall maintain an unassigned balance in the General Fund equal to or greater than five percent of the amount contained in the adopted budget of the General Fund of the County's last audited financial statements. For purposes of this section, the total General Fund calculation shall not include sales and compensating use tax revenues shared with local governments and school districts. Fund balance may be included as revenue in an approved budget of the General Fund provided that there shall remain an unassigned balance of at least five percent as provided in the first sentence of this paragraph.*"

Pursuant to the aforementioned section of the Erie County Charter and the final 2013 adopted budget, the amount required to achieve the five percent threshold is $54,054,680. Therefore, the unassigned fund balance as of this report is $89,476,811, which exceeds the five percent requirement by $35,422,131.

The attached Appendix shows that while the overall surplus was within the administration's broad projection, total revenues were missed by $18,547,159 and total expenditures were missed by $23,158,904 in their detail projection. As you are aware, projections are critical pieces of information used when your Honorable Body makes decisions throughout the year and especially during the subsequent year's budget process.

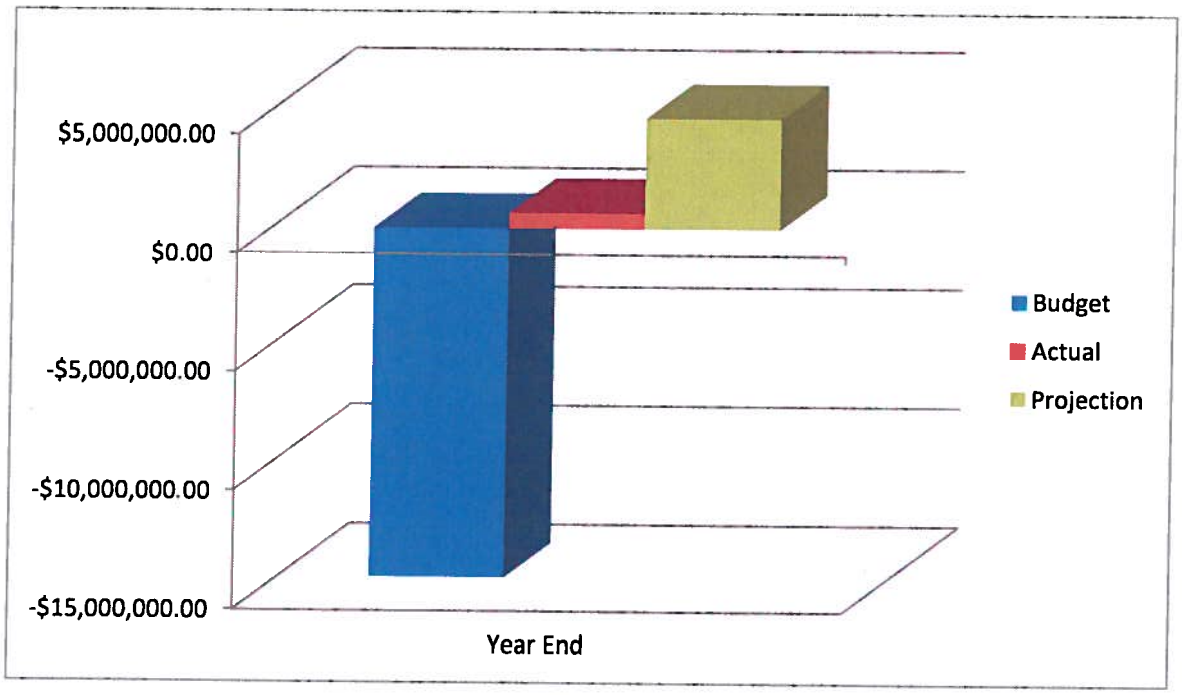
Major variances were recorded in various budget categories at the close of the 2013 fiscal year, including:

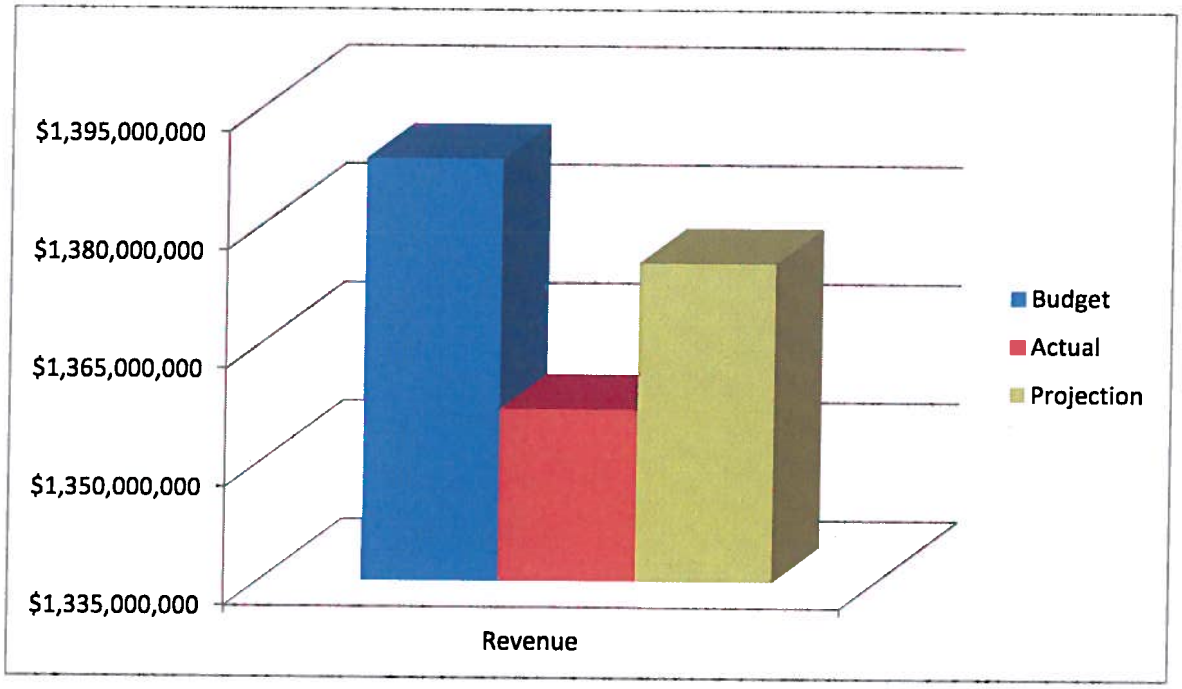
Positive Variances

- $ 1,811,489 County Clerk Revenue
- $ 838,451 Sheriff Jail Facilities & Other Governments
- $ 6,205,433 Net Property Tax Collections
- $ 1,811,489 Hotel Occupancy Tax
- $ 8,113,199 Gross Turnover Savings
- $10,425,522 Fringe Benefits
- $ 1,868,021 Medicaid

Negative Variances

- $ 5,952,473 Sales Tax Revenue
- $ 3,531,594 Gross Non-Salaries

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Budget
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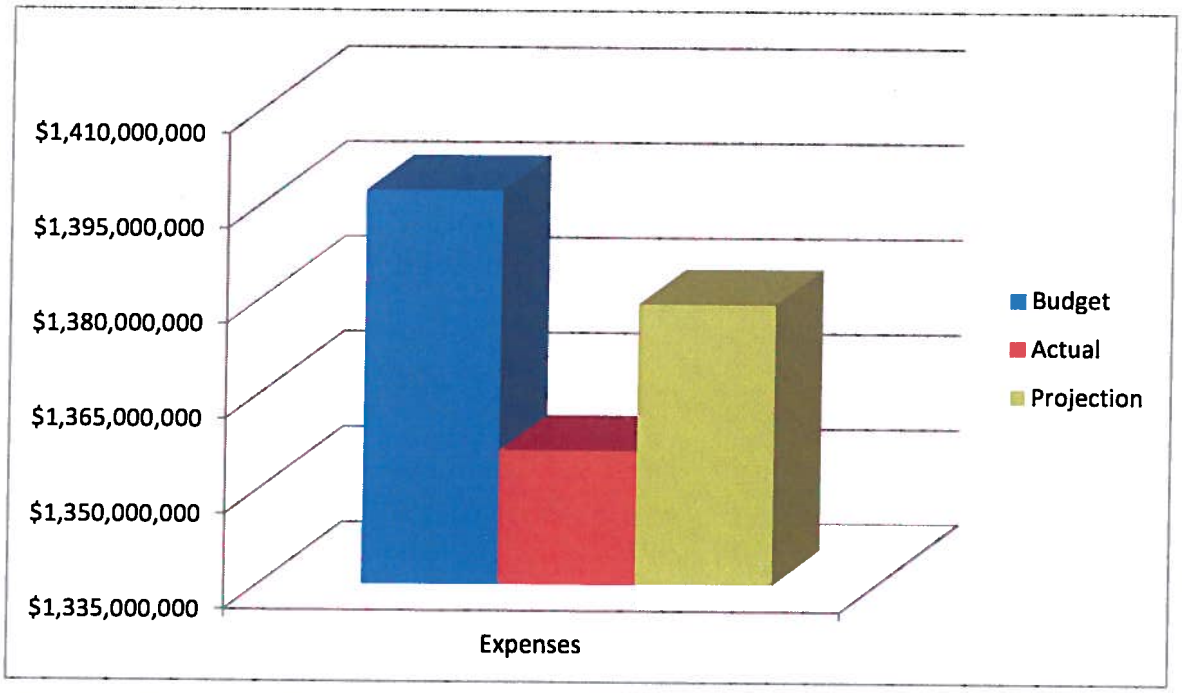
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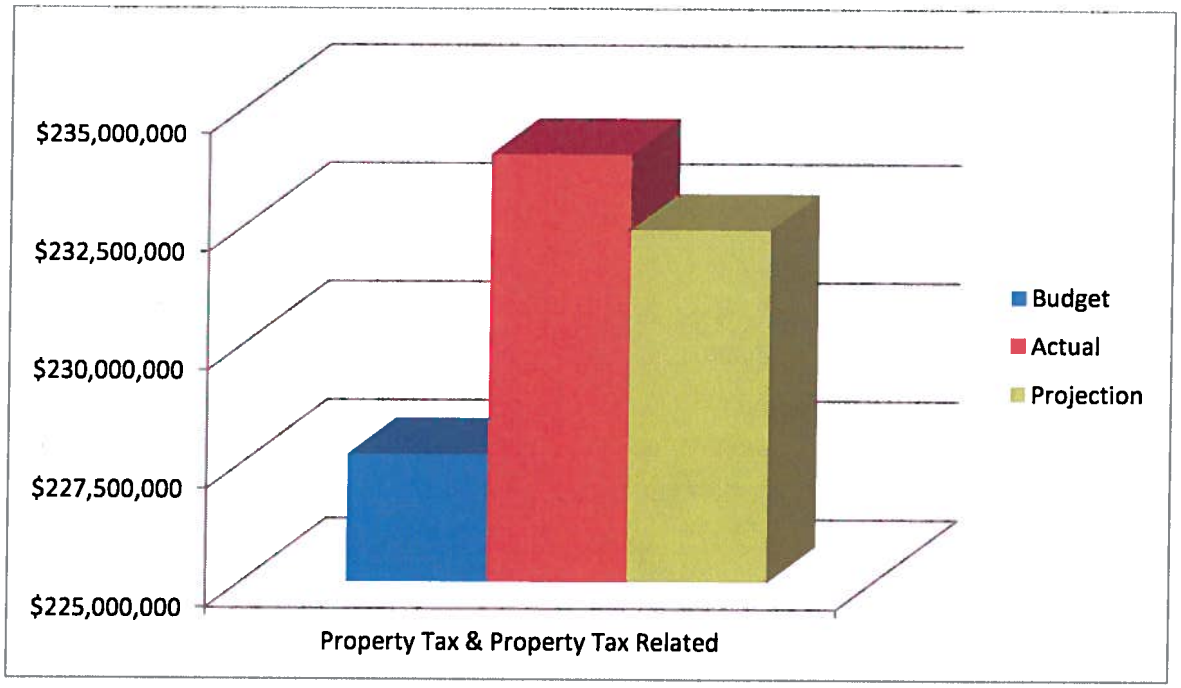
Budget
Actual
Projection
Expenses

2013 REVENUES

PROPERTY TAX & PROPERTY TAX RELATED

The 2013 property tax collections came in on budget and as predicted by the administration. Property tax related items came in $6,336,323 over budget, an increase of $1,584,730 from the administration's projections. The main component of this variance was the net between interest & penalties and property tax adjustment.

Property tax collections greater than budget, materialized without a rate increase, is a very good thing for Erie County.

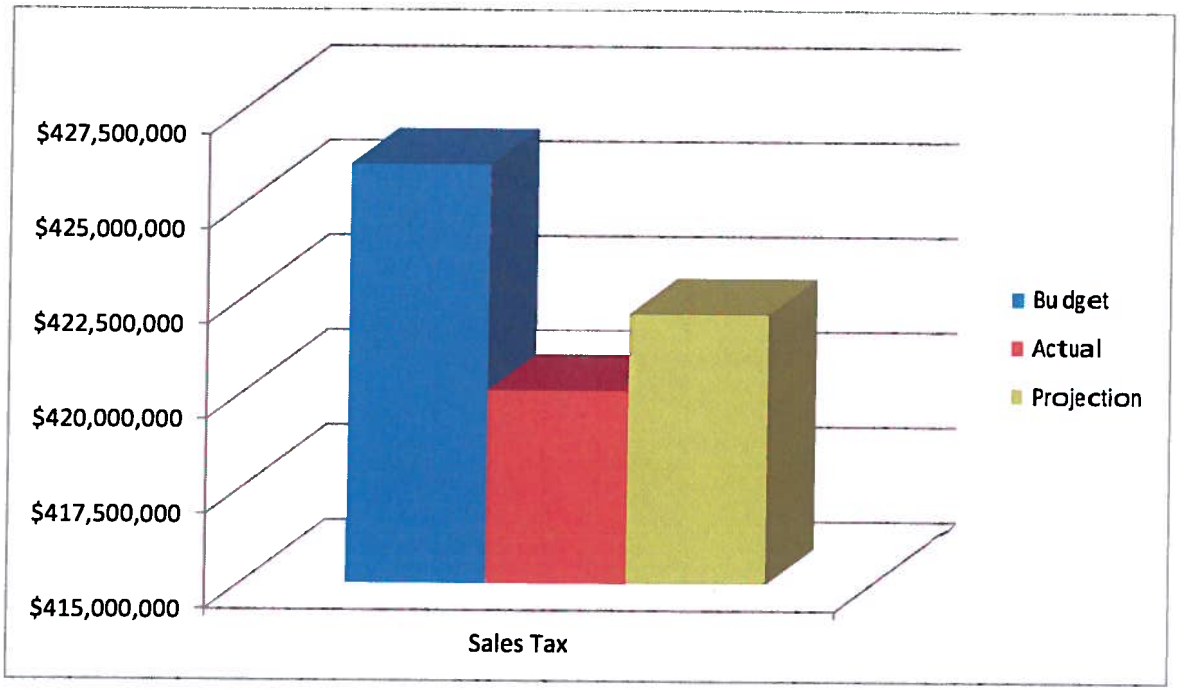


SALES TAX

2013 sales tax revenue came in $5,952,473 under budget. This outcome was $2,027,042 below the last projection released by the administration. Members of the administration and I have continually said sales tax is the largest revenue in the budget and is subject to economic conditions uncontrolled by the County.

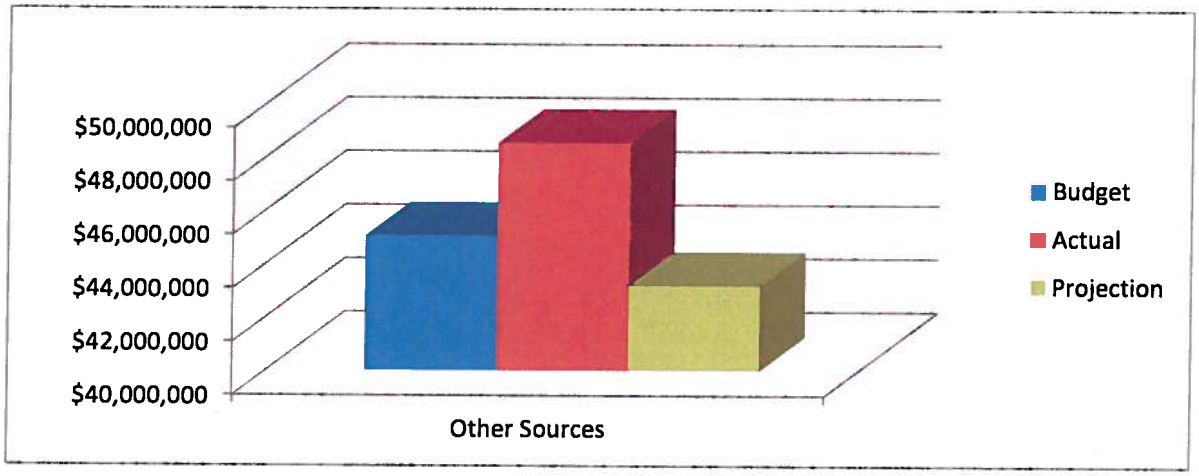
While it is still too early to draw any conclusions on how 2014 sales tax will end, from what has already been realized, we know that sales tax must grow 3.42% from 2013 actuals to meet budget.

My office will continue to monitor sales tax receipts, the largest revenue in the budget accounting for $434,438,173 in annual revenue throughout the year. As we receive information from the state, we will continue to transmit that to your honorable body.



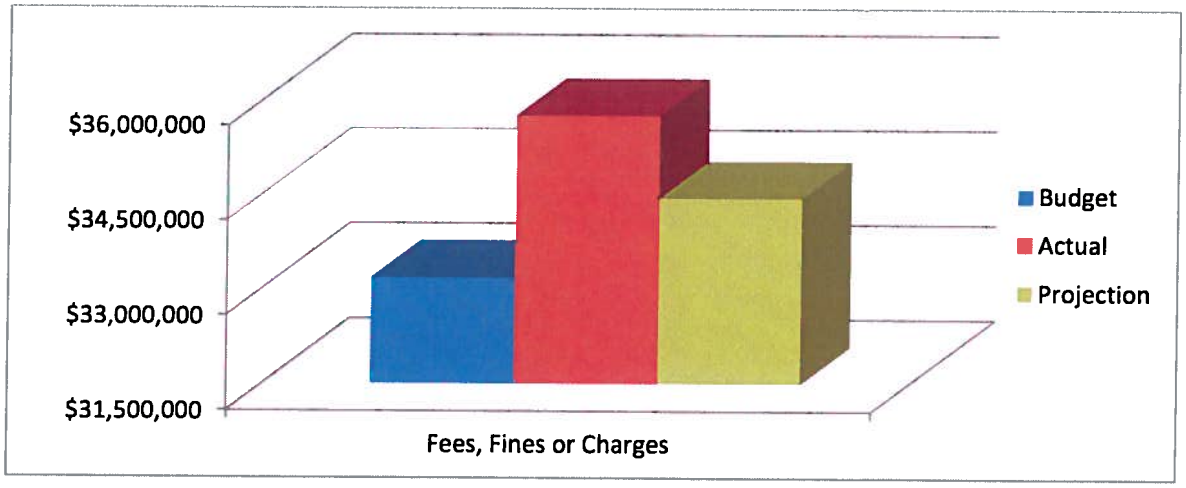
OTHER SOURCES

The 2013 Other Sources budget category came in $3,478,919 over budget and $5,330,159 higher than the last projection by the administration. This positive variance is due to payments due from ECMCC coming in $5,201,059 over budget. This is offset by program expenses recorded in Upper Payment Limit payment (UPL) and Disproportionate Share (DSH) expenses related to ECMCC.



FEES, FINES OR CHARGES

The 2013 Fees, Fines and Other Charges category came in $2,574,709 over budget and $1,304,612 over the administration's last projection. This positive variance is primarily due to positive budget outcomes in the offices of the Erie County Clerk and Sheriff. The County Clerk's Auto and Recording Fees came in a combined $1,811,489 over budget. The Sheriff's Jail Management Division's Jail Facilities Other Government account came in $838,451 over budget.

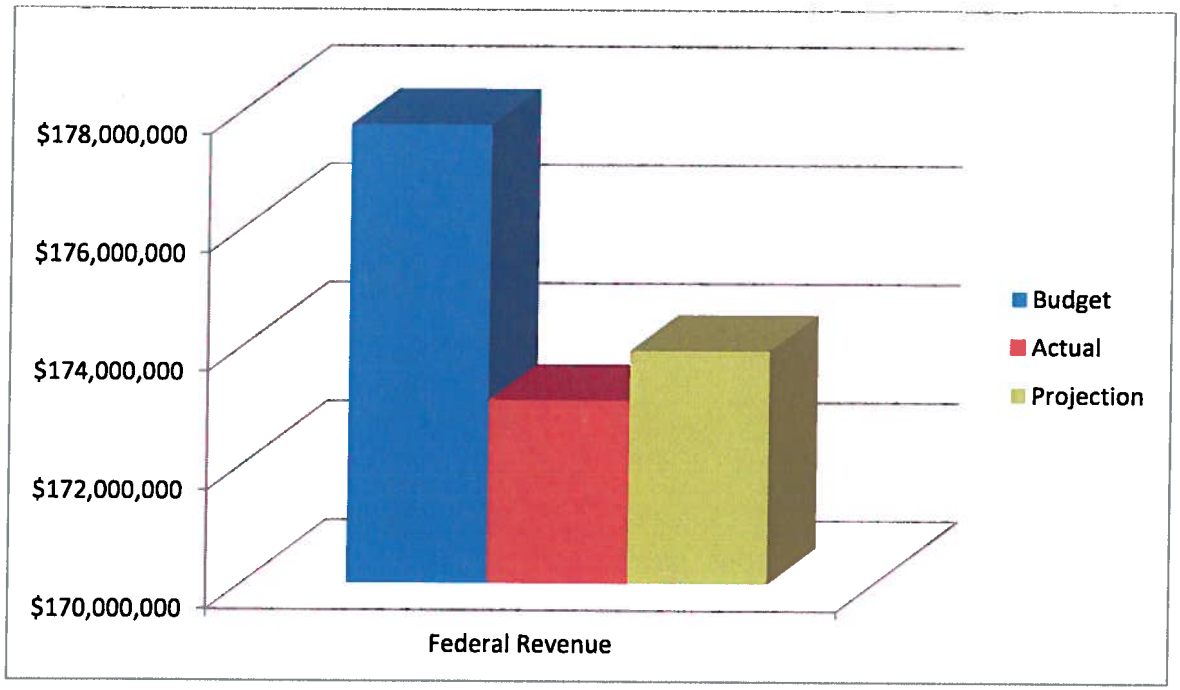


APPROPRIATED FUND BALANCE

There was no use of fund balance in 2013 because the County ended the year with a surplus. Thus, the $14,673,120 that was budgeted to be used in 2013 was not. Technically, this results in a negative variance of the same amount. This is also the amount that the administration's last projection was off by.

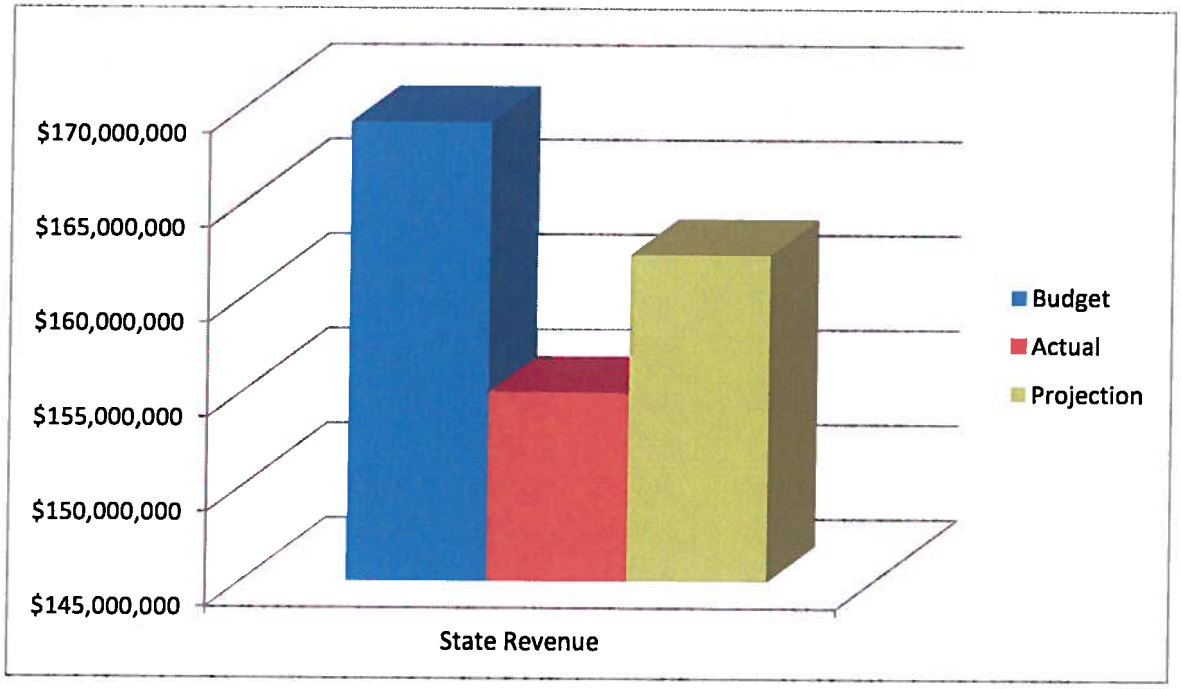
FEDERAL REVENUE

Federal Revenue came in $4,646,774 under budget and $843,326 under the administration's last projection. The federal accounts reflected both positive and negative variances that were offset by positive or negative variances in reimbursable expenses.



STATE REVENUE

State Revenue came in $14,266,697 under budget and $7,289.238 lower than the administration's last projection. As in the case of federal revenue, this reflects a reduction of state revenue as the result of lower expenses. The largest area where a decreased expense was realized was the State Aid Early Intervention Program, which came in $6,624,617 under budget. The positive variance in the program expense was $8,896,231. All major programs, as detailed below, came in under budget except for Family Assistance and Safety Net.



INTERFUND REVENUE

Interfund Revenue came in $11,730 over budget and $11,730 higher than the administration's last projection. A negative variance in this account is offset by positive variances in the expenses of other funds that net to zero.

2013 EXPENSES

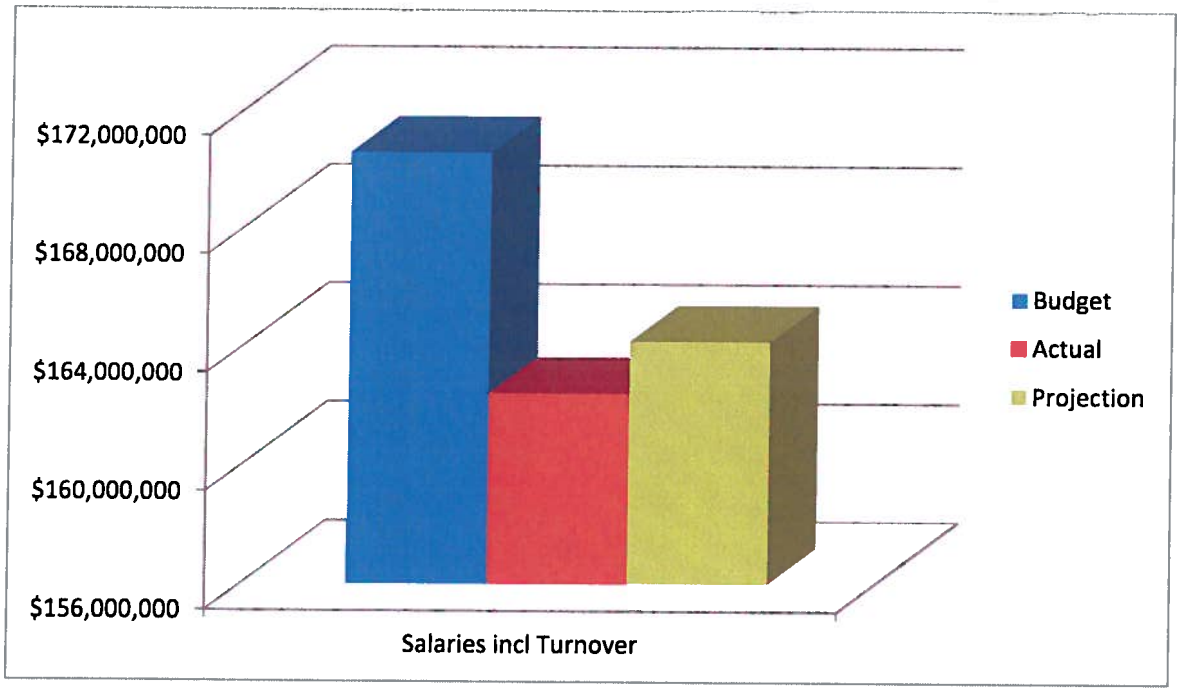
SALARIES/TURNOVER

Total salaries, less turnover, came in $8,113,199 under budget and $1,767,514 lower than the administration's last projection. While this represents the gross savings, the net savings are reflected throughout the reimbursable departments.

In the budget glossary the administration defines turnover as:

"Anticipated savings in salary and fringe benefit expenses resulting from temporary vacancies created by employee turnover. This amount is subtracted from the amount of budgeted for salaries and fringe benefits in the form of a negative appropriation."

Below you will see the amount budgeted for 2013 fringe benefit costs was off by millions of dollars. This incredible amount of savings generated reinforces your Honorable Body's decision to increase the turnover account in the 2013 adopted budget. The administration has demonstrated their ability to achieve higher savings.

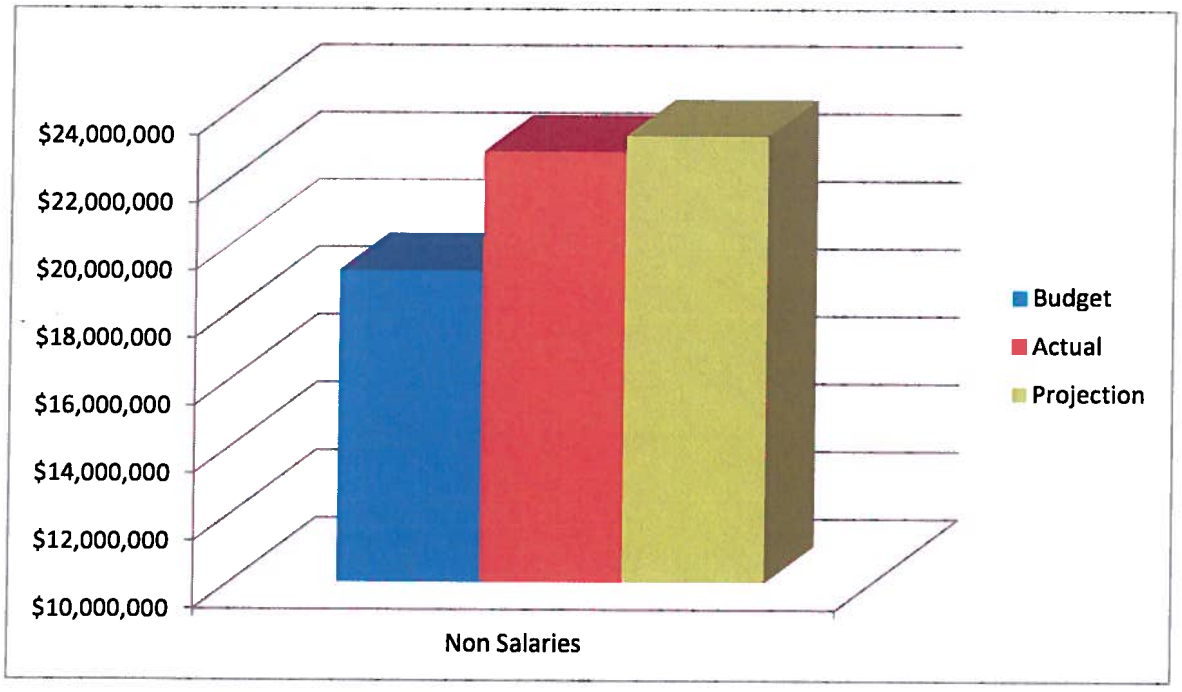


NON SALARIES

Total non-salaries came in $3,531,594 over budget and $473,603 lower than the administration's projection. Overtime was the leading cause for this negative variance.

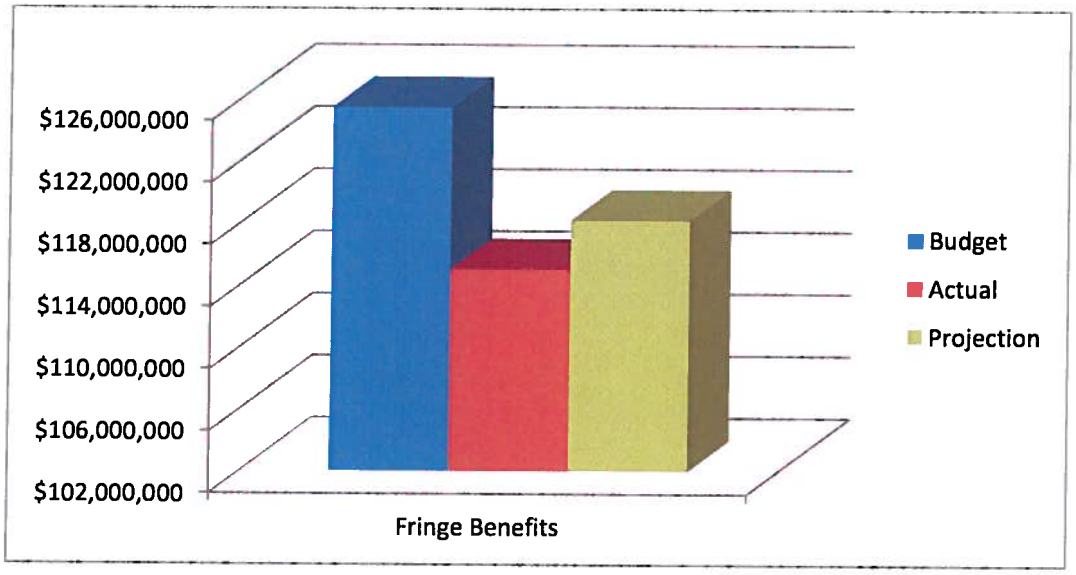
- Jail Management Division - $2,089,874 – Over Budget
  - *An $415,610 improvement from 2012*
- Health Department - $561,022 – Over Budget
  - *An $430,498 Improvement from 2012*

The Jail Management Division issue should be alleviated as a result of additional staff added in 2014 as part of an agreement between the County and the State Commission on Corrections that resulted in 31 new positions added to the Division in 2014. This is part of a multi-year program to increase staffing to meet State guidelines and reduce overtime costs. The Health Department overtime issue was primarily due to medical staff assigned to the Correctional Facility and Holding Center. However, trends show significant improvement on the expense year to year.



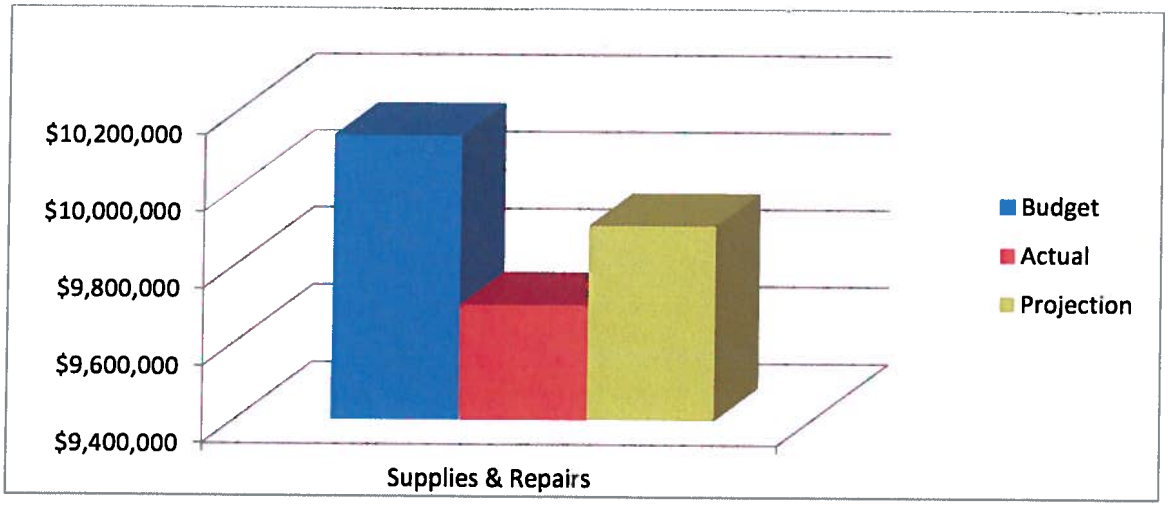
FRINGE BENEFITS

Total fringe benefit costs came in $10,425,522 under budget and $3,182,020 higher than the administration's projection. The fact that it came in below the administration's projection reinforces the decision by your Honorable Body to decrease fringe benefit costs by $2,149,621 in the 2013 budget. Your actions were affordable, not irresponsible. Had you not acted, the positive variance would have been $12,575,143.



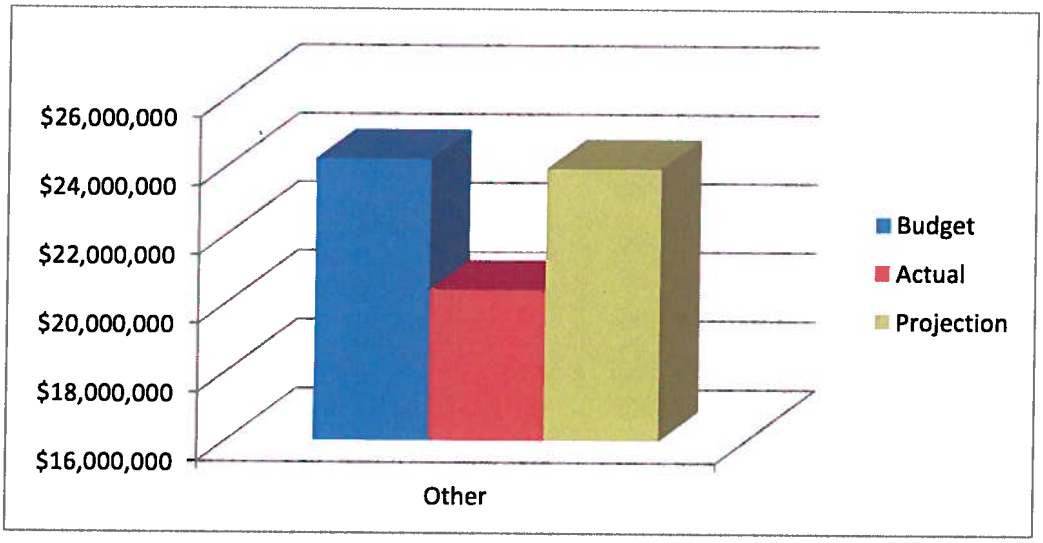
SUPPLIES AND REPAIRS

Total Supplies and Repairs came in $438,935 under budget and $207,002 under the administration's projection. This variance was due to lower maintenance and auto repair expenses, which offset the growth in medical supplies. Medical supplies was the only supplies and repairs account that came in over budget, and did so by $512,767.



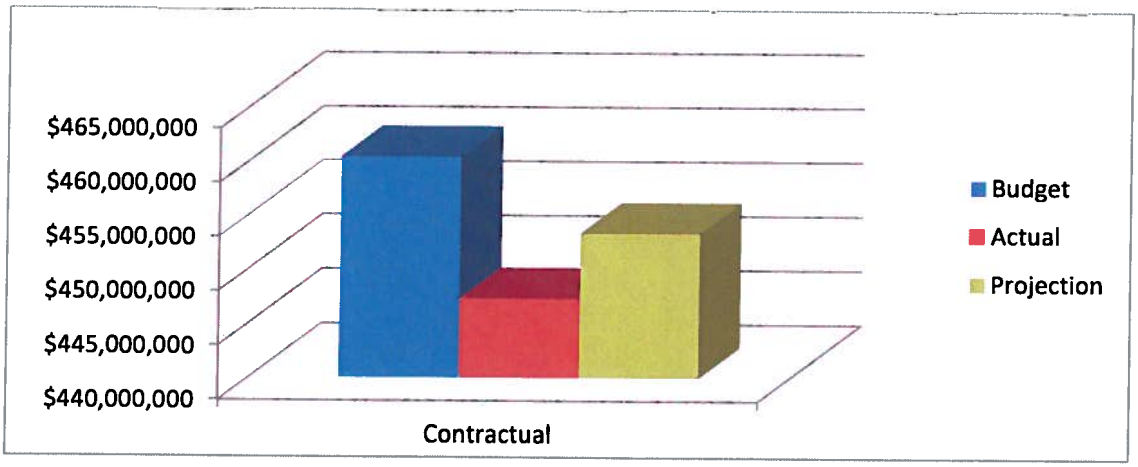
OTHER

Total Other Expenses came in $3,807,456 under budget and $3,536,916 under the administration's projection. The variance is the result of Pivot Wage Subsidies: $756,555, Rent, $448,231, Chargebacks $146,032 and Other $358,143.



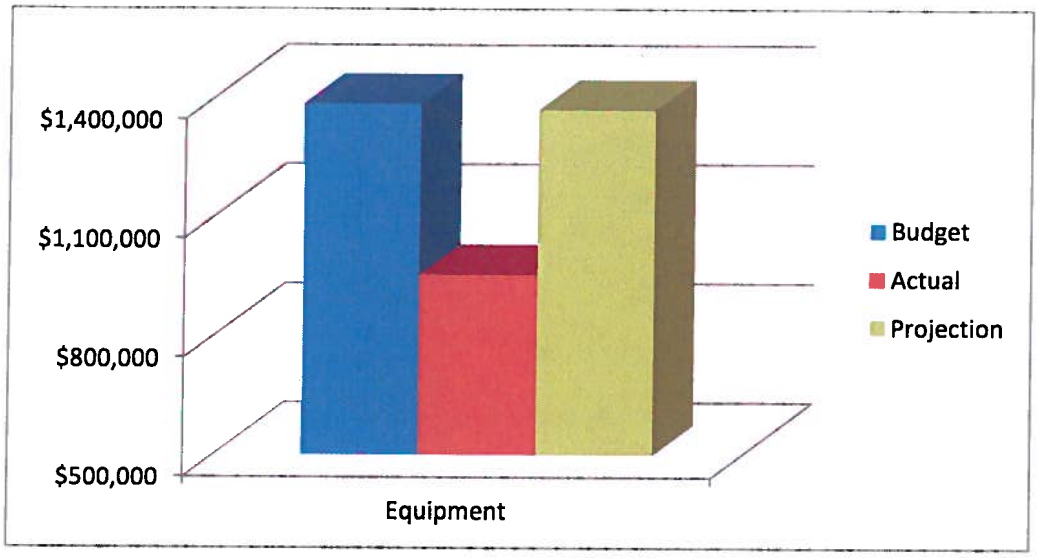
CONTRACTUAL

Total Contractual expense came in $13,044,587 under budget and $6,047,742 under the administration's projection. This was primarily due to a $4,793,580 positive variance in Sales Tax to Local Governments that offsets a like amount in negative variance in the revenue for this account. In addition, a $6,393,052 positive variance in Non Profit Purchase of Services that consisted of various Mental Health and OASES agencies, these savings are offset by State Revenues that were not realized as detailed above



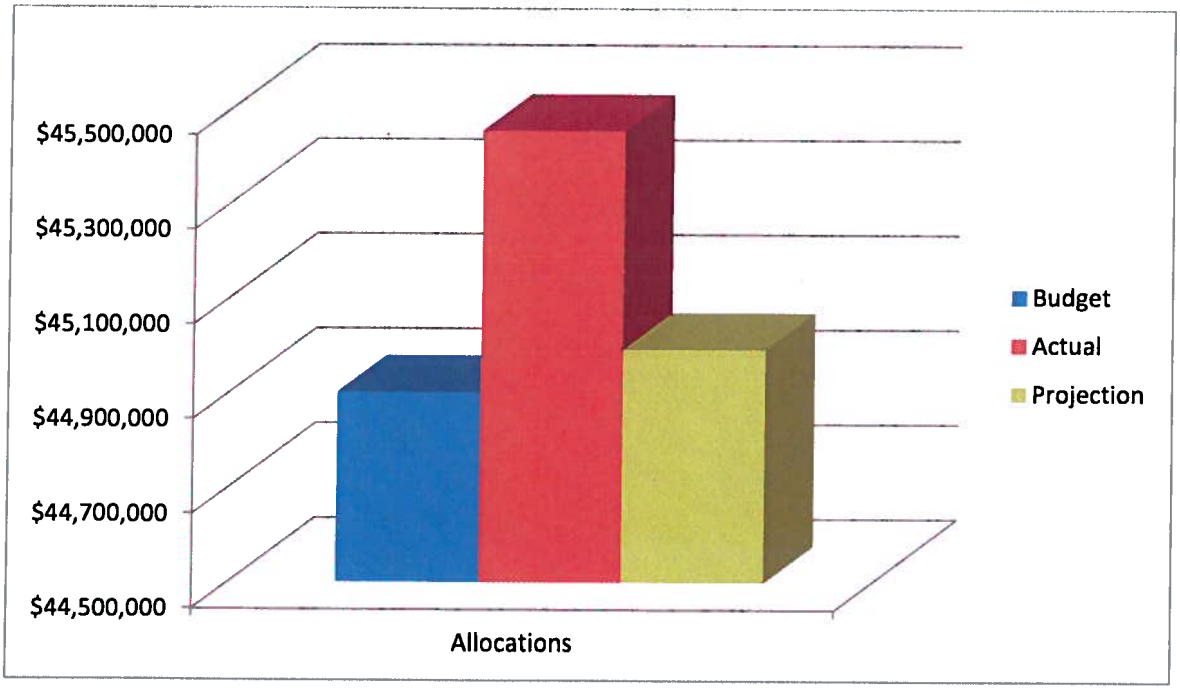
EQUIPMENT

Total Equipment expense came in $430,351 under budget and $415,729 under the administration's projection.



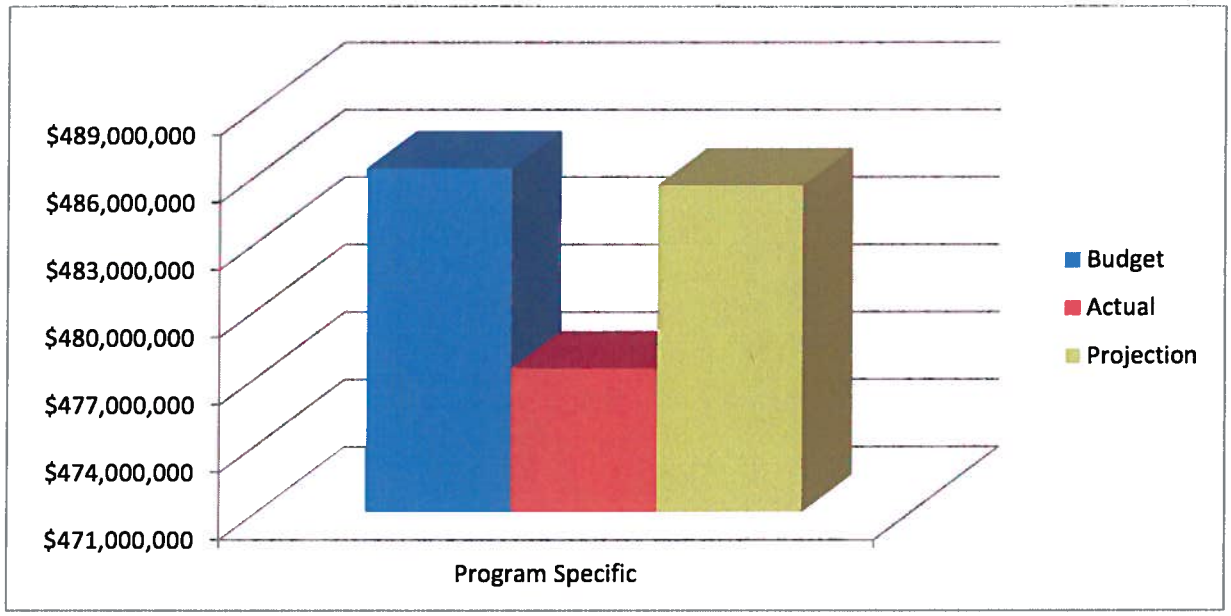
ALLOCATIONS

Total Allocations came in $553,118 over budget and $460,913 over the administration's projection. Overages were realized in subsidy transfers to the Road Fund: $293,966; Subsidies: $705,641; and Utility fund: $140,020.



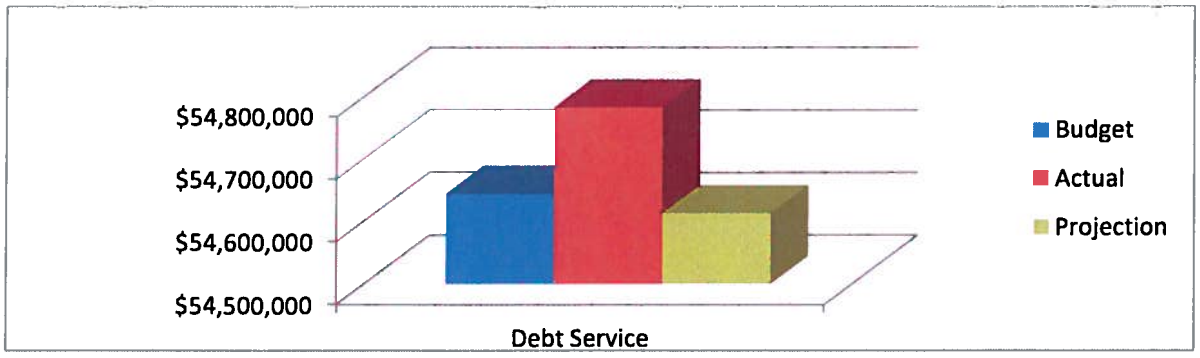
PROGRAM SPECIFIC

Total Program expense came in $8,903,541 under budget or $8,158,208 under the administration's projection. This positive variance in expense is partially offset by the negative variance in State and Federal revenues, discussed above. Two areas that came in over budget are Safety Net and Family Assistance that came in a combined $6,716,973 over budget that was partially offset by additional State and Federal aid totaling $3,784,709 over budget. The other area that exceeded budget was UPL and DSH expense payments to ECMCC (required by the Intergovernmental Transfer agreement) by $5,418,789, offset by a like amount of additional revenue as noted above.



DEBT SERVICE

Total debt service expense came in $138,715 over budget or $168,917 higher than the administration projected. This is due to lower interest earnings on capital project cash and an interest payment due on debt issued in 2013 that was not budgeted that increased the need for subsidy from the General fund.



APPENDIX A

ACCOUNT TYPE	2013 FINAL BUDGET	NOV 2013 PROJECTION	2013 ACTUALS	2013 BUDGET VARIANCE	2013 PROJECTION VARIANCE
PROPERTY TAX	215,098,371	215,098,371	215,098,371	0	0
PROPERTY TAX RELATED	12,585,607	17,337,200	18,921,930	6,336,323	1,584,730
SALES TAX	426,033,687	422,108,256	420,081,214	-5,952,473	-2,027,042
SALES TAX OTHER GOVTS	294,861,414	292,279,790	290,334,126	-4,527,288	-1,945,664
OTHER SOURCES	45,033,075	43,181,835	48,511,994	3,478,919	5,330,159
FEES, FINES or CHARGES	33,166,073	34,436,170	35,740,782	2,574,709	1,304,612
APPROPRIATED FUND BALANCE	14,673,120	14,673,120	0	-14,673,120	-14,673,120
FEDERAL REVENUE	177,732,201	173,928,753	173,085,427	-4,646,774	-843,326
STATE REVENUE	169,230,987	162,253,528	154,964,290	-14,266,697	-7,289,238
INTERFUND REVENUE			11,730	11,730	11,730
TOTAL REVENUES	**1,388,414,535**	**1,375,297,023**	**1,356,749,864**	**-31,664,671**	**-18,547,159**
	69,420,727				
SALARIES	172,337,378	164,204,108	162,436,594	9,900,784	1,767,514
NON-SALARIES	19,213,876	23,219,073	22,745,470	-3,531,594	473,603
TURNOVER	-1,787,585	0	0	-1,787,585	0
FRINGE BENEFITS	125,399,948	118,156,446	114,974,426	10,425,522	3,182,020
SUPPLIES and REPAIRS	10,137,620	9,905,687	9,698,685	438,935	207,002
OTHER	24,187,584	23,917,044	20,380,128	3,807,456	3,536,916
CONTRACTUAL	460,332,918	453,336,073	447,288,331	13,044,587	6,047,742
EQUIPMENT	1,383,709	1,369,087	953,358	430,351	415,729
ALLOCATIONS	44,900,548	44,992,753	45,453,666	-553,118	-460,913
PROGRAM SPECIFIC	486,287,625	485,542,292	477,384,084	8,903,541	8,158,208
DEBT SEVICE	54,643,336	54,613,134	54,782,051	-138,715	-168,917
TOTAL EXPENSES	**1,397,036,957**	**1,379,255,697**	**1,356,096,793**	**40,940,164**	**23,158,904**

SUMMARY

The 2013 unaudited results confirm your Honorable Body's decision to amend the 2013 budget as proposed by County Executive Mark C. Poloncarz, eliminating an unnecessary property tax increase of $8,514,324.

The Four Year Plan (FYP) as accepted by the Erie County Fiscal Stability Authority (ECFSA) reflected an overall $15.7 million gap over the period 2015-2017. The results of 2013 reflect that portions of the FYP should be revised to reflect final 2013 results, specifically Fringe Benefits, Social Service Programs and Sales Tax that ended 2013 significantly different from the last projection as provided by the administration.

Should your honorable body have any questions regarding this report, my staff and I will be available at your convenience.

Sincerely yours,

STEFAN I. MYCHAJLIW
Erie County Comptroller

Cc: Erie County Fiscal Stability Authority
Mark Poloncarz, Erie County Executive